

ORIGINAL
OPEN MEETING ITEM



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COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES



ARIZONA CORPORATION COMMISSION

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22

DATE: April 6, 2004
DOCKET NO: T-02724A-03-0750
TO ALL PARTIES:

Enclosed please find the recommendation of Assistant Chief Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Order on:

TABLE TOP TELEPHONE COMPANY
(FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

APRIL 15, 2004

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Open Meeting to be held on:

APRIL 20 AND 21, 2004

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931

Arizona Corporation Commission
DOCKETED

APR - 6 2004

DOCKETED BY	
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BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 MARC SPITZER, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF
9 TABLE TOP TELEPHONE COMPANY'S
10 REQUEST FOR FINANCING AUTHORIZATION.

DOCKET NO. T-02724A-03-0750

DECISION NO. _____

11 **ORDER**

12 Open Meeting
13 April 20 and 21, 2004
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 On October 9, 2003, Table Top Telephone Company, Inc. ("Table Top" or "Company") filed
17 an application with the Arizona Corporation Commission ("Commission") requesting authorization
18 to borrow \$11,235,000 from the U.S. Department of Agriculture, Rural Utilities Service ("RUS") and
19 \$6,540,450 from the Rural Telephone Bank ("RTB").

20 On March 31, 2004, the Commission's Utilities Division Staff ("Staff") filed a Staff Report
21 recommending approval of Table Top's request, subject to certain conditions.

22 * * * * *

23 Having considered the entire record herein and being fully advised in the premises, the
24 Commission finds, concludes, and orders that:

25 **FINDINGS OF FACT**

26 1. Pursuant to authority granted by the Commission, Table Top is an Arizona corporation
27 engaged in the business of providing telecommunication services to approximately 5,000 customers
28 located in the Aguila, Ajo, Bagdad, Inscription Canyon Ranch, Sanders, and Seligman exchanges in
Arizona. The Company's rural service area covers 2,976 square miles in these six noncontiguous
exchanges, with an average density of approximately 1.7 access lines per square mile. Table Top's
current rates were approved by the Commission in Decision No. 62840 (August 24, 2000).

2. On October 9, 2003, Table Top filed an application with the Commission requesting

1 authorization to borrow \$11,235,000 from the RUS and \$6,540,450 from the RTB, for a total of
2 \$17,775,450. The Company intends to use the proceeds of the proposed loans to fund its five-year
3 improvement plan, including the following projects: connection of approximately 2,100 new
4 subscribers; construction of a new central office building; installation of 77 new fiber-fed digital loop
5 carriers (DLCs); installation of new microwave facilities; purchase of computer aid design
6 equipment; construction of new aerial and buried fiber optic facilities; and the purchase of RTB Class
7 B stock equal to 5 percent of the loan advances (as required by the RTB).

8 3. On November 17, 2003, Table Top published notice of its financing application in the
9 *Arizona Republic*.

10 4. Staff Engineering indicates that Table Top plans to modernize its infrastructure and
11 expand its network support facilities to accommodate projected annual growth rates that vary
12 between 2.9 and 12.4 percent in its exchanges. Although Staff concluded that the proposed use of the
13 loan proceeds is appropriate, Staff made no determination of the used and useful nature of any of the
14 planned facilities infrastructure.

15 5. The RUS and RTB loans will have interest rates based on the average yield on
16 outstanding marketable obligations of the United States which have a final maturity date that is
17 comparable to the final maturity of each advance taken by Table Top. The RUS loan interest rate
18 will be fixed at the time of each advance, while the RTB loan will carry an interim interest rate at the
19 time of each advance. A permanent rate will be determined on each RTB loan advance at the end of
20 the fiscal year in which the advance is made based on RTB's cost of money rate for the fiscal year.
21 The maturity period of the loans is 17 years.

22 6. Under the terms of the loans, the Company must pledge the assets purchased with the
23 loan proceeds, as well as other assets. The pledge assets include a central office building, 77 DLC
24 sites, DSL equipment additions in the six exchanges, 37 standby generators, an FAA microwave
25 system, 250 miles of fiber, and computer equipment.

26 7. Staff's analysis of Table Top's financial profile is based on audited financial
27 statements for the year ended June 30, 2003. Based on its analysis, Staff prepared schedules that
28 assume a 5 percent interest rate for both the RUS and RTB loans.

1 8. As of June 30, 2003, Table Top's capital structure was composed of 8.5 percent short-
2 term debt, 49.5 percent long-term debt, and 42 percent equity. If the entire proposed \$17,775,450
3 debt were drawn by the Company, its capital structure would change to 6.1 percent short-term debt,
4 73.7 percent long-term debt, and 20.2 percent equity. Staff indicates that, according to *Standard &*
5 *Poor's Corporate Ratings Criteria (2003)*, the median debt ratio for utilities with a rating of BBB is
6 62.6 percent.

7 9. The debt service coverage ("DSC") ratio represents the number of times internally
8 generated cash will cover required principal and interest payments on long-term debt. A DSC greater
9 than 1.0 indicates that operating cash is sufficient to cover debt obligations. Staff calculated a pro
10 forma DSC ratio of 1.20 based on the assumption that the Company would draw the entire proposed
11 loan amount at a 5 percent interest rate.

12 10. The times interest earned ration ("TIER") represents the number of times earnings will
13 cover interest expense on a long-term debt. A TIER greater than 1.0 means that operating income is
14 greater than interest expense. Staff calculated a pro forma TIER of 1.16 based on the assumption that
15 the Company would draw the entire proposed loan amount at a 5 percent interest rate.

16 11. Although Staff's DSC and TIER calculations assume a worst case scenario, Staff
17 indicated that Table Top is not planning an immediate 100 percent draw down of the loan proceeds.
18 The Company's projections are to draw down 13.95 percent of the proposed debt in 2004, 9.42
19 percent in 2005, 18.93 percent in 2006, 29.54 percent in 2007, and 28.16 percent in 2008. The
20 information provided to Staff indicates that Table Top is also planning to increase its equity through
21 retained earnings over the next five years.

22 12. Staff stated that Table Top had no compliance issues as of March 17, 2004.

23 13. Based on its review of the application and associated information, Staff made the
24 following conclusions and recommendations:

- 25 a) Staff concluded that although issuance of the entirety of the
26 proposed \$17,775,450 debt would result in a capital structure that
27 is more leveraged than normal, the Company's debt and equity
28 projections provide for a reasonably balanced capital structure;

- 1 b) Staff concluded that issuance of \$17,775,450 of additional debt,
2 based on the terms described in the filing, is for lawful purposes,
3 within Table Top's corporate powers, compatible with the public
4 interest, compatible with sound financial practices, and will not
5 impair its ability to provide public utility service;
6
7 c) Staff recommends approval of Table Top's request to borrow
8 \$11,235,000 from the RUS and \$6,540,450 from the RTB, on the
9 terms and conditions specified in the application, subject to the
10 condition that subsequent to any drawdown from the proposed loan
11 the Company's capital structure must consist of no less than 35
12 percent equity;
13
14 d) Staff recommends that the Commission authorize Table Top to
15 pledge, mortgage, and grant liens and/or encumbrances of its
16 utility plant as security for the loans, as may be required by the
17 RUS and the RTB;
18
19 e) Staff recommends that Table Top be required to submit annual
20 status reports to the Director of the Utilities Division summarizing
21 the amount of loans drawn each year for each project under
22 construction and/or completed during the preceding year. Such
23 reports would be due 30 days after the end of the calendar year and
24 will cease to be required after January 31, 2009;
25
26 f) Staff recommends that Table Top be authorized to execute any
27 documents necessary to effectuate the authorizations granted; and
28
29 g) Staff recommends that Table Top be required to provide to the
30 Director of the Utilities Division copies of all executed financing
31 documents within 60 days after the loan agreements are signed.

14. Based on the facts and circumstances described herein, we find that the application should be approved and Staff's recommendations should be adopted.

15. By approving this application we are making no determination as to any rate base treatment of the assets to be acquired or built with this financing. Such determination will be made in a future rate case, and any appropriate adjustments may be made at that time.

CONCLUSIONS OF LAW

1. Table Top is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-301, 40-302, and 40-285.

2. The Commission has jurisdiction over the Company and of the subject matter of the

1 application.

2 3. Notice of the application was provided in the manner prescribed by law.

3 4. Staff's recommendations, as set forth in Finding of Fact No. 13, are reasonable and
4 should be adopted.

5 5. The proposed long-term financing is for lawful purposes, is within the Company's
6 corporate powers, is compatible with the public interest, is compatible with sound financial practices
7 and the proper performance by the Company of service as a public service corporation, and will not
8 impair the Company's ability to perform that service.

9 6. The financing approved herein is for the purposes stated in the application and is
10 reasonably necessary for those purposes and such purposes are not, wholly or in part, reasonably
11 chargeable to operating expenses or to income.

12 7. Based on our findings, and in light of Staff's recommendations, no hearing is
13 necessary.

14 **ORDER**

15 IT IS THEREFORE ORDERED that Table Top Telephone Company, Inc. shall be authorized
16 to issue long-term debt in an aggregate amount not to exceed \$17,775,450 for a term of no more than
17 17 years at terms set forth in the application and as described hereinabove.

18 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. is hereby authorized
19 to engage in any transactions and to execute any documents necessary to effectuate the authorization
20 granted hereinabove and shall file with the Director of the Utilities Division, within 60 days of the
21 date the loan agreements are executed, copies of all signed loan documents certifying that the
22 transactions have been completed.

23 IT IS FURTHER ORDERED that approval of Table Top Telephone Company, Inc.'s request
24 to borrow \$11,235,000 from the RUS and \$6,540,450 from the RTB, on the terms and conditions
25 specified in the application, is subject to the condition that subsequent to any drawdown from the
26 proposed loan the Company's capital structure must consist of no less than 35 percent equity.

27 IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. shall be required to
28 submit annual status reports to the Director of the Utilities Division summarizing the amount of loans

drawn each year for each project under construction and/or completed during the preceding year. Such reports shall be due 30 days after the end of the calendar year and will cease to be required after January 31, 2009.

IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. shall be authorized to pledge, mortgage, and grant liens and/or encumbrances of its utility plant as security for the loans, to the extent described hereinabove, as may be required by the RUS and the RTB.

IT IS FURTHER ORDERED that the authority granted herein shall be expressly contingent upon Table Top Telephone Company, Inc. using the loan proceeds for the purposes described in the application.

IT IS FURTHER ORDERED that approval of the financing authorized hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2004.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

1
2 SERVICE LIST FOR:

TABLE TOP TELEPHONE COMPANY, INC.

3 DOCKET NO.

T-02724A-03-0750

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